

City of Torrance

First Quarter Budget Review



FINANCE DEPARTMENT

3031 Torrance Blvd. • Torrance, CA 90503

310.618.5850

finance@torrnet.com

www.torrnet.com

2007~08

A SNAPSHOT OF TORRANCE

Population: 148,558
 Peak Daytime Population (2 p.m.): 203,011
 Area: 21 Square Miles
 Full Time Employees: 1,350
 Fire Stations: 6
 Police Station: 1
 Police Substation: 1
 Police Community Centers: 3
 Sworn Police Employees: 241
 Sworn Fire Employees: 157
 Public Libraries: 6
 Street Trees: 90,000
 Miles of Sidewalks: 550
 Parks & Recreation Amenities: 46

*California Department of Finance, California Demographic Research
 Unit Price and Population Data for Local Jurisdictions, dated May 2007.



Executive Summary

- ❖ Torrance continues to have a strong underlying economy.
- ❖ The City's tax and economic base includes a mix of high-end residential properties and a sizable commercial and retail component. The City has a large property tax base of \$22.2 billion in FY2007, increasing in assessed value by 7.1% over last year.
- ❖ Unemployment rates in the City of 2.5% (as of 09/30/07) have fallen under both State and national averages of 5.1% and 4.7%, respectively.
- ❖ Taxable Sales for the State and Torrance have continued to increase and are projected to reflect a modest growth through the fourth quarter of calendar year 2008.
- ❖ Year-end operations for the General Fund, fiscal year ended June 30, 2007, generated available carry-over of approximately \$11.7 million due to:
 - A positive revenue variance of \$7.7 million, related primarily to higher than projected property tax revenue derived from increases in real estate values, continued strong construction activity, and better than expected investment portfolio earnings.
 - A positive expenditure variance of \$4.0 million, of which \$3.3 million was due primarily to position vacancies and \$600,000 from unused materials and professional services.

2006-07 Year End Carry-Over & Reserves

- ❖ The recommended use of 2006-07 carry over:

CARRY-OVER ALLOCATION PER ADOPTED BUDGET

2006-07 Year-End Carry-over	\$ 11,715,870
Less:	
Facility Maintenance	(500,000)
Ongoing operations 2007-08	(600,000)
Additional funding for FEAPS*	(400,000)
FEAPS/Capital Projects per Proposed 2007-09 Budget	(1,300,000)
Litigation Reserve	(250,000)
Program Contingency Reserve	(50,000)
Prop A Exchanges Reserve	(400,000)
Economic Anomaly Reserve	(3,000,000)
Unallocated Carry-over	\$ 5,215,870

CARRY-OVER ALLOCATION PER 1st QTR. BUDGET REVIEW

2007-08 Capital Projects:

Police Electrical Panel	(300,000)
Underground Tank Removal	(266,400)
Automated Fueling System	(130,000)
One Stop Permitting Center	(900,000)
Lomita Right of Way Park Development	(500,000)
Wilson Park Maintenance	(220,000)
De-thatch of Park Ball Fields	(170,000)
Earthquake Retrofit of Library Stacks	(170,000)
ADA** Access Compliance Survey	(60,000)
Retrofit Police Building for ADA Accessibility	(170,000)
Home Maintenance Assistance Program	(250,000)

Program Modifications

CAC Endowment Fund Reserve	(250,000)
Human Resources Analyst	(55,000)
FEAP Projects	(274,470)
Regional Transit and Training Center Reserve	(250,000)

Reserves:

Economic Anomaly Reserve	(500,000)
Program Innovation Reserve	(150,000)
Proposition A Exchange Reserve	(300,000)
Economic Development Reserve	(300,000)

Balance of 2006-07 Carry-over

—

- * Facilities Equipment & Automation Projects (FEAPS)
- ** Americans with Disabilities Act (ADA)

Budget Outlook

- ❖ The economic forecast for California continues to project an overall growth in payroll by 1.2%.
- ❖ The economy's slowing is caused by the lagging housing market, foreclosures and the lack of liquidity in the markets as a whole.
- ❖ The demand for housing is down in Los Angeles County, which is reflected by the drop in home sales by 20%. Typically, as demand decreases, inventories will build, which then puts downward pressure on prices.

TABLE 1
First Quarter Revenue Results 2007-08

	2007-08 Budget	2007-08 Actual*	2007-08 Percent*	2006-07 Percent**
TOTAL REVENUES				
Property Tax	\$35,862,200	\$2,103,749	5.9%	9.7%
Sales & Use Tax***	45,124,836	8,282,229	18.4%	12.6%
Utility Users Tax	35,664,980	8,907,450	25.0%	20.2%
Business License/Permit Tax	7,582,000	196,150	2.6%	1.9%
Occupancy Tax	7,445,870	1,921,168	25.8%	24.9%
Other Taxes	6,731,735	697,413	10.4%	17.5%
Total Taxes	\$138,411,621	\$22,108,159	16.0%	14.4%
Licenses & Permits	2,060,042	458,186	22.2%	28.1%
Fines & Forfeitures	1,348,000	379,111	28.1%	26.8%
Use of Money/Property****	2,961,742	1,158,177	39.1%	26.7%
Revenues from Other Agencies	1,849,625	220,854	11.9%	13.1%
Charges from Services	4,199,222	1,536,169	36.6%	32.3%
Other Revenues	16,347,915	3,352,663	20.5%	34.3%
Total General Fund Revenues	\$167,178,167	\$29,213,319	17.5%	16.5%
OTHER FUNDS				
Internal Service Funds	12,341,369	3,439,872	27.9%	19.5%
Total Enterprise Funds	89,922,364	21,890,234	24.3%	20.9%
TOTAL REVENUES	\$269,441,900	\$54,543,425	20.2%	18.2%

* Based on actual receipts as of September 30, 2007.

** Based on actual receipts as of September 16, 2006, which causes timing differences in percentage comparisons.

*** Includes Triple Flip of \$10,815,000. In order to finance the State's 2004 deficit reduction bonds, 1/4 of the City's share (1%) of sales tax was swapped for property tax. For presentation purposes, the Triple Flip is reclassified into sales tax.

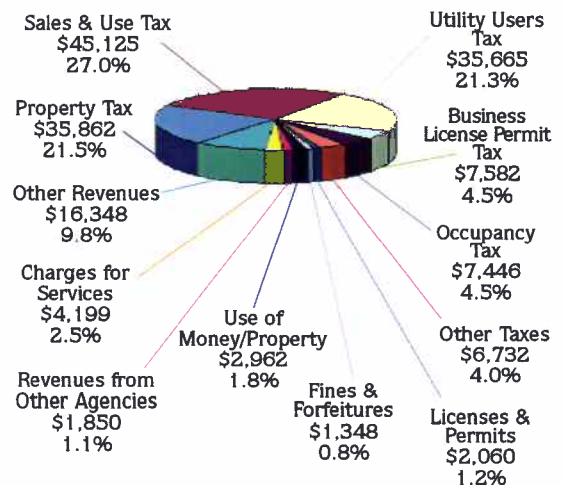
**** Increase over prior year figures is due to a high cash balance from the issuance of tax revenue anticipation notes.

- ❖ Per the Federal Reserve, "Economic growth was solid in the third quarter (calendar), and strains in the financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow down in the near term, partly reflecting the intensification of the housing correction."
- ❖ On October 31, 2007, the Federal Reserve lowered the federal funds rate by 25 basis points (0.25%) to 4-1/2% which signals that the Federal Reserve feels the upside risks to inflation have been trumped by the downside risks to growth.

Revenue Overview

- ❖ The General Fund fiscal year 2007-08 budget estimate for revenues is \$163,624,807, of which \$29,213,319, or 17.9%, was received through September 30, 2007.
- ❖ The City's revenue results as of the 1st Quarter 2007-08 are found in Table 1.

General Fund Revenue Budget Summary 2007-08 (in thousands)

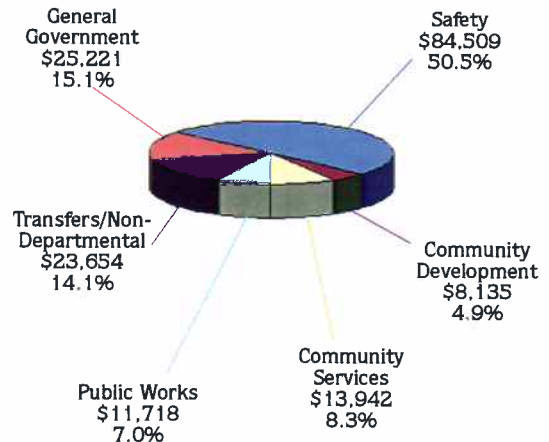


Actual Revenues and Expenditures Fiscal Year ended June 30, 2007

	Revenues	Expenditures	Variance Favorable (Unfavorable)
General Fund	\$182,812,127	\$151,096,257	\$11,715,870
Enterprise Funds:			
Airport	11,070,853	8,518,905	2,551,948
Transit	20,242,457	18,087,709	2,154,748
Water	23,223,435	22,140,372	1,083,063
Emergency Medical	8,177,245	8,127,220	50,025
Sanitation	10,782,998	10,135,554	647,444
Cultural Arts	1,767,537	1,767,537	-
Sewer	2,914,034	1,626,340	1,287,694
Parks & Recreation	7,325,010	7,296,849	28,161
Internal Services			
Fleet - Operation	6,858,908	4,519,179	2,339,729
Self Insurance	4,286,566	4,965,551	(678,985)

General Fund Operating Budget by Function 2007-08

(in thousands)



Expenditure Overview

- All General Fund Internal Service Funds and Enterprise Fund departments are within their overall budget (exclusive of encumbrances) as of September 30, 2007.
- The City's expenditure results as of 1st Quarter 2007-08 are found in Table 2.

**TABLE 2
First Quarter Expenditure Results* 2007-08**

Total Expenditures	2007-08 Budget	2007-08 (w/o Encumb)**	2007-08 Percent
Salaries and Wages	\$ 149,061,150	\$ 31,127,949	20.9%
Salaries and Benefits Reimb.***	(27,130,363)	(2,261,297)	8.3%
Materials and Supplies	12,384,838	1,707,999	13.8%
Professional Svcs/Contracts	8,303,402	890,505	10.7%
Travel, Training, & Memb. Dues	1,089,610	144,746	13.3%
Liabilities & Other Insurance	1,751,434	265,257	15.1%
Interdepartmental Charges	3,289,185	828,988	25.2%
Debt Service	2,921,351	(50,187)	-1.7%
Capital Acquisitions	448,754	69,061	15.4%
Reimbursements - From Other Funds	(3,391,112)	(774,358)	22.8%
Other Expenditures	121,240	14,203	11.7%
Reimbursements - Indirect Costs	(3,928,799)	(891,564)	22.7%
Operating Transfers Out ****	21,257,477	6,488,285	30.5%
Advances to Other Funds	1,000,000	252,000	25.2%
Total General Fund Expenditures	\$ 167,178,167	\$ 37,811,587	22.6%
OTHER FUNDS			
Internal Service Funds	\$ 9,819,470	\$ 2,947,087	30.0%
Total Enterprise Funds	\$ 90,074,483	\$ 22,196,157	24.6%

* Based on actual expenditures as of September 30, 2007.

** Without Encumbrances (committed amount from purchase orders & contracts issued for goods and services).

*** Reimbursements to the General Fund for work performed for other Funds.

**** To offset transfers between funds such as General Fund Subsidy to Parks and Recreation Fund.

Budgetary Concerns

❖ Housing market

- › The decline in housing prices is concerning. Many counties in California, including Los Angeles are bracing for requests for re-assessment and the decline in value of the property tax rolls.
- › Torrance has not seen a month-over-month decline in home values from last year. In contrast, August 2007 home values increased by over 7.8% over August 2006 home values.
- › Over the past couple of years, property taxes have been projected to grow by about 4%. Property tax is the City's third largest revenue source for the General Fund and will be monitored closely in case actual receipts begin to fall below current year projections.

❖ Retail sales

- › As the economy softens and consumer confidence erodes, large ticket items and holiday sales may be adversely affected.
- › Holiday sales will most likely take another hit due to possible inventory shortages and product safety concerns for toys manufactured outside the United States.

❖ Utility User's Tax (UUT)

- › The Federal Government implemented a policy which eliminated the Federal Excise Tax.
- › Some telephone utility users' tax suppliers have made inquiries regarding the application of the City's UUT on long distance service.
- › The City believes that the City's UUT ordinance still applies to long distance service. Staff has been in discussions with the League of California Cities, as well as legal counsel, on the potential impact of the Federal Government's change in policy.
- › Recently, some cities have elected to change their existing UUT ordinance (by city council action) enhancing and redefining the intent of the telephone UUT with respect to long distance telephone calls.
- › Other cities (Hermosa Beach, Los Angeles, and Pasadena) are placing the telephone tax on a ballot seeking voters' approval of the telephone UUT tax.
- › The loss of revenue to the City's General Fund for the long distance component of the telephone UUT is projected to be approximately \$5-6 million annually.